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DESCRIPTORS- *POST SECONDARY EDUCATION, *VOCATIONAL EDUCATION, TECHNICAL EDUCATION, *SCHOLARSHIP LOANS, *FEDERAL LAWS, NATIONAL VOCATIONAL STUDENT LOAN INSURANCE ACT OF 1965,

THE PURPOSE OF THIS ACT, THE NATIONAL VOCATIONAL STUDENT LOAN INSURANCE ACT OF 1965, IS TO ENABLE THE COMMISSIONER OF EDUCATION TO (1) ENCOURAGE STATES AND NONPROFIT PRIVATE INSTITUTIONS AND ORGANIZATIONS TO ESTABLISH LOAN INSURANCE PROGRAMS FOR STUDENTS IN ELIGIBLE INSTITUTIONS, (2) PROVIDE A FEDERAL PROGRAM OF STUDENT LOAN INSURANCE FOR STUDENTS WHO DO NOT HAVE REASONABLE ACCESS TO A STATE OR PRIVATE NONPROFIT PROGRAM OF STUDENT LOAN INSURANCE, AND (3) PAY A PORTION OF THE INTEREST ON LOANS TO QUALIFIED STUDENTS WHO ARE INSURED UNDER THIS ACT OR UNDER A PROGRAM OF A STATE OR NONPROFIT PRIVATE INSTITUTION OR ORGANIZATION WHICH MEETS THE NECESSARY REQUIREMENTS. THE INSURED LOAN LIMIT IS $1,000 PER ACADEMIC YEAR AND IS NOT TO EXCEED $2,000 AT ANY TIME. THE INSURANCE LIABILITY SHALL BE 100 PERCENT OF THE UNPAID BALANCE OF THE PRINCIPAL AMOUNT OF THE LOAN. ELIGIBLE STUDENTS MUST HAVE BEEN ACCEPTED FOR ENROLLMENT OR BE IN GOOD STANDING AT A POST-SECONDARY BUSINESS, TRADE, TECHNICAL, OR OTHER VOCATIONAL SCHOOL, BE CARRYING AT LEAST ONE-HALF OF THE NORMAL FULL-TIME LOAD, AND HAVE PROVIDED THE LENDER WITH AN INSTITUTIONAL STATEMENT OF THE SCHEDULE OF EDUCATIONAL EXPENSES. THE LOAN IS TO BE REPAID WITH CERTAIN EXCEPTIONS, IN INSTALLMENTS OVER A PERIOD OF NOT LESS THAN 3 YEARS NOR MORE THAN 6 YEARS BEGINNING NOT EARLIER THAN 9 MONTHS NOR LATER THAN 1 YEAR AFTER THE STUDENT CEASES TO MEET THE ELIGIBILITY REQUIREMENTS. (EM)

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
OFFICE OF EDUCATION

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Public Law 89-287
89th Congress, H. R. 7743
October 22, 1965

An Act

79 STAT. 1037

To establish a system of loan insurance and a supplementary system of direct loans, to assist students to attend post-secondary business, trade, technical, and other vocational schools.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "National Vocational Student Loan Insurance Act of 1965".

National Vocational Student Loan Insurance Act of 1965.

STATEMENT OF PURPOSE AND APPROPRIATIONS AUTHORIZED

SEC. 2. (a) The purpose of this Act is to enable the Commissioner (1) to encourage States and nonprofit private institutions and organizations to establish adequate loan insurance programs for students in eligible institutions (as defined in section 17), (2) to provide a Federal program of student loan insurance for students who do not have reasonable access to a State or private nonprofit program of student loan insurance covered by an agreement under section 9(b), and (3) to pay a portion of the interest on loans to qualified students which are insured under this Act or under a program of a State or of a nonprofit private institution or organization which meets the requirements of section 9(a)(1)(A).

(b) For the purpose of carrying out this Act—

(1) there are authorized to be appropriated to the vocational student loan insurance fund (established by section 13) (A) the sum of $250,000, and (B) such further sums, if any, as may become necessary for the adequacy of the vocational student loan insurance fund,

(2) there are authorized to be appropriated, for payments under section 9 with respect to interest on insured loans, such sums for the fiscal year ending June 30, 1966, and succeeding fiscal years, as may be required therefor, and

(3) there are authorized to be appropriated the sum of $1,875,000 for making advances pursuant to section 3 for the reserve funds of State and nonprofit private student loan insurance programs.

Sums appropriated under clauses (1) and (2) of this subsection shall remain available until expended, and sums appropriated under clause (3) of this subsection shall remain available for advances under section 3 until the close of the fiscal year ending June 30, 1968.

ADVANCES FOR RESERVE FUNDS OF STATE AND NONPROFIT PRIVATE LOAN INSURANCE PROGRAMS

SEC. 3. (a)(1) From the sums appropriated pursuant to clause (3) of section 2(b), the Commissioner is authorized to make advances to any State with which he has made an agreement pursuant to section 9(b) for the purpose of helping to establish or strengthen the reserve fund of the student loan insurance program covered by that agreement. If for any of the fiscal years ending June 30, 1966, June 30, 1967, or June 30, 1968, a State does not have a student loan insurance program covered by an agreement pursuant to section 9(b), and the Commissioner determines after consultation with the chief executive officer of that State that there is no reasonable likelihood that the State will have such a student loan insurance program for such year, the Commissioner may make advances for such year for the same purpose to one or more nonprofit private institutions or organizations with which he has made an agreement pursuant to section 9(b) in order to enable

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students in that State to participate in a program of student loan insurance covered by such an agreement. The Commissioner may make advances under this subsection both to a State program with which he has such an agreement and to one or more nonprofit private institutions or organizations with which he has such an agreement in that State if he determines that such advances are necessary in order that students in each eligible institution have access through such institution to a student loan insurance program which meets the requirements of section 9(b)(1).

(2) Advances pursuant to this subsection shall be upon such terms and conditions (including conditions relating to the time or times of payment) consistent with the requirements of section 9(b) as the Commissioner determines will best carry out the purposes of this section. Advances made by the Commissioner under this subsection shall be repaid within such period as the Commissioner may deem to be appropriate in each case in the light of the maturity and solvency of the reserve fund for which the advance was made.

(b) The total of the advances to any State pursuant to subsection (a) may not exceed an amount which bears the same ratio to 2½ per centum of $75,000,000 as the population of that State aged eighteen to twenty-two, inclusive, bears to the total population of all the States aged eighteen to twenty-two, inclusive. If the amount so determined for any State, however, is less than $10,000, it shall be increased to $10,000 and the total of the increases thereby required shall be derived by proportionately reducing (but not below $10,000) the amount so determined for each of the remaining States. Advances to nonprofit private institutions and organizations pursuant to subsection (a) may be in such amounts as the Commissioner determines will best achieve the purposes for which they are made, except that the sum of (1) advances to such institutions and organizations for the benefit of students in any State plus (2) the amounts advanced to such State, may not exceed the maximum amount which may be advanced to that State pursuant to the first two sentences of this subsection. For the purposes of this subsection, the population aged eighteen to twenty-two, inclusive, of each State and of all the States shall be determined by the Commissioner on the basis of the most satisfactory data available to him.

EFFECT OF ADEQUATE NON-FEDERAL PROGRAMS

SEC. 4. The Commissioner shall not issue certificates of insurance under section 11 to lenders in a State if he determines that every eligible institution has reasonable access in that State to a State or private nonprofit student loan insurance program which is covered by an agreement under section 9(b).

SCOPE AND DURATION OF LOAN INSURANCE PROGRAM

SEC. 5. (a) The total principal amount of new loans made and installments paid pursuant to lines of credit (as defined in section 17) to students covered by insurance under this Act shall not exceed $75,000,000 in the fiscal year ending June 30, 1966, and in each of the two succeeding fiscal years. Thereafter, insurance pursuant to this part may be granted only for loans made (or for loan installments paid pursuant to lines of credit) to enable students, who have obtained prior loans insured under this Act, to continue or complete their educational programs; but no insurance may be granted for any loan made or installment paid after June 30, 1972.

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(b) The Commissioner may, if he finds it necessary to do so in order to assure an equitable distribution of the benefits of this Act, assign, within the maximum amounts specified in subsection (a), insurance quotas applicable to eligible lenders, or to States or areas, and may from time to time reassign unused portions of these quotas.

LIMITATIONS ON INDIVIDUAL LOANS AND ON INSURANCE

SEC. 6. (a) No loan or loans by one or more eligible lenders in excess of $1,000 in the aggregate to any student in any academic year or its equivalent shall be covered by insurance under this Act. The aggregate insured unpaid principal amount of all such insured loans made to any student shall not at any time exceed $2,000. The annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any year in excess of the annual limit.

(b) The insurance liability on any loan insured under this Act shall be 100 per centum of the unpaid balance of the principal amount of the loan. Such insurance liability shall not include liability for interest whether or not that interest has been added to the principal amount of the loan.

SOURCES OF FUNDS

SEC. 7. Loans made by eligible lenders in accordance with this Act shall be insurable whether made from funds fully owned by the lender or from funds held by the lender in a trust or similar capacity and available for such loans.

ELIGIBILITY OF STUDENT BORROWERS AND TERMS OF STUDENT LOANS

SEC. 8. (a) A loan by an eligible lender shall be insurable under the provisions of this Act only if—

(1) made to a student who (A) has been accepted for enrollment at an eligible institution or, in the case of a student already attending such institution, is in good standing there as determined by the institution, and (B) is carrying at least one-half of the normal full-time workload as determined by the institution, and (C) has provided the lender with a statement of the institution which sets forth a schedule of the tuition and fees applicable to that student and its estimate of the cost of board and room for such a student; and

(2) evidenced by a note or other written agreement which—

(A) is made without security and without endorsement, except that if the borrower is a minor and such note or other written agreement executed by him would not, under the applicable law, create a binding obligation, endorsement may be required,

(B) provides for repayment (except as provided in subsection (c)) of the principal amount of the loan in installments over a period of not less than three years (unless sooner repaid) nor more than six years beginning not earlier than nine months nor later than one year after the date on which the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload as determined by the institution in accordance with regulations of the Commissioner, except (i) as provided in clause (C) below, (ii) that the period of the loan may not exceed nine years from the execution of the note or written agreement

evidencing it and (iii) the note or other written instrument may contain such provisions relating to repayment in the event of default in the payment of interest or in the payment of the cost of insurance premiums, or other default by the borrower, as may be authorized by regulations of the Commissioner in effect at the time the loan is made,

(C) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid, during any period (i) during which the borrower is pursuing a full-time course of study at an institution of higher education or at a comparable institution outside the States approved for this purpose by the Commissioner, (ii) not in excess of three years, during which the borrower is a member of the Armed Forces of the United States, or (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, and any such period shall not be included in determining the six-year period or the nine-year period provided in clause (B) above,

75 Stat. 612.
22 USC 2501 note.

(D) provides for interest on the unpaid principal balance of the loan at a yearly rate, not exceeding the applicable maximum rate prescribed and defined by the Secretary (within the limits set forth in subsection (b)) on a national, regional, or other appropriate basis, which interest shall be payable in installments over the period of the loan except that, if provided in the note or other written agreement, any interest payable by the student may be deferred until not later than the date upon which repayment of the first installment of principal falls due, in which case interest that has so accrued during that period may be added on that date to the principal (but without thereby increasing the insurance liability under this Act),

(E) provides that the lender will not collect or attempt to collect from the borrower any portion of the interest on the note which is payable by the Commissioner under this Act,

(F) entitles the student borrower to accelerate without penalty repayment of the whole or any part of the loan, and

(G) contains such other terms and conditions, consistent with the provisions of this Act and with the regulations issued by the Commissioner pursuant to this Act, as may be agreed upon by the parties to such loan, including, if agreed upon, a provision requiring the borrower to pay to the lender, in addition to principal and interest, amounts equal to the insurance premiums payable by the lender to the Commissioner with respect to such loan.

(b) No maximum rate of interest prescribed and defined by the Secretary for the purposes of clause (2)(D) of subsection (a) may exceed 6 per centum per annum on the unpaid principal balance of the loan, except that under circumstances which threaten to impede the carrying out of the purposes of this Act, one or more of such maximum rates of interest may be as high as 7 per centum per annum on the unpaid principal balance of the loan.

(c) The total of the payments by a borrower during any year of any repayment period with respect to the aggregate amount of all loans to that borrower which are insured under this Act shall not be less than $360 or the balance of all such loans (together with interest thereon), whichever amount is less.

FEDERAL PAYMENTS TO REDUCE STUDENT INTEREST COSTS

SEC. 9. (a)(1) Each student who has received a loan—

(A) which is insured under this Act;

(B) which was made for study at an eligible institution under a State student loan program (meeting criteria prescribed by the Commissioner), and which was contracted for, and paid to the student, within the period specified by paragraph (4); or

(C) which is insured under a program of a State or of a nonprofit private institution or organization, which was contracted for, and paid to the student, within the period specified in paragraph (4), and which—

(i) in the case of a loan insured prior to July 1, 1967, was made by an eligible lender and is insured under a program which meets the requirements of subparagraph (E) of subsection (b)(1) and provides that repayment of such loan shall be in installments beginning not earlier than sixty days after the student ceases to pursue a course of study (as described in subparagraph (D) of subsection (b)(1)) at an eligible institution, or

(ii) in the case of a loan insured after June 30, 1967, is insured under a program covered by an agreement made pursuant to subsection (b),

and whose adjusted family income is less than $15,000 at the time of execution of the note or written agreement evidencing such loan, shall be entitled to have paid on his behalf and for his account to the holder of the loan, over the period of the loan, a portion of the interest on the loan. For the purposes of this paragraph, the adjusted family income of a student shall be determined pursuant to regulations of the Commissioner in effect at the time of the execution of the note or written agreement evidencing the loan. Such regulations shall provide for taking into account such factors, including family size, as the Commissioner deems appropriate.

(2) The portion of the interest on a loan which a student is entitled to have paid on his behalf and for his account to the holder of the loan pursuant to paragraph (1) shall be equal to the total amount of the interest on the unpaid principal amount of the loan which accrues prior to the beginning of the repayment period of the loan, and 3 per centum per annum of the unpaid principal amount of the loan (excluding interest which has been added to principal) thereafter; but such portion of the interest on a loan shall not exceed, for any period, the amount of the interest on that loan which is payable by the student after taking into consideration the amount of any interest on that loan which the student is entitled to have paid on his behalf for that period under any State or private loan insurance program. In the absence of fraud by the lender, that determination shall be final so far as the obligation of the Commissioner to pay a portion of the interest on a loan is concerned. The holder of a loan with respect to which payments are required to be made under this section shall be deemed to have a contractual right, as against the United States, to receive from the Commissioner the portion of interest which has been so determined. The Commissioner shall pay this portion of the interest to the holder of the loan on behalf of and for the account of the borrower at such times as may be specified in regulations in force when the applicable agreement entered into pursuant to subsection (b) was made, or if the loan was made by a State or is insured under a program which is not covered by such an agreement, at such times as may be specified in regulations in force at the time the loan was paid to the student.

(3) Each holder of a loan with respect to which payments of interest are required to be made by the Commissioner shall submit to the Commissioner, at such time or times and in such manner as he may prescribe, statements containing such information as may be required by or pursuant to regulation for the purpose of enabling the Commissioner to determine the amount of the payment which he must make with respect to that loan.

(4) The period referred to in subparagraphs (B) and (C) of paragraph (1) of this subsection shall begin on the date of enactment of this Act and end on June 30, 1968, except that, in the case of a loan made or insured under a student loan or loan insurance program, to enable a student who has obtained a prior loan made or insured under such program to continue his educational program, such period shall end on June 30, 1972.

(5) No payment may be made under this section with respect to the interest or a loan made from a student loan fund established under title II of the National Defense Education Act of 1958.

72 Stat. 1583. 20 USC 421-429.

(b) (1) Any State or any nonprofit private institution or organization may enter into an agreement with the Commissioner for the purpose of entitling students who receive loans which are insured under a student loan insurance program of that State, institution, or organization to have made on their behalf payments equal to those provided for in subsection (a) if the Commissioner determines that the student loan insurance program—

(A) authorizes the insurance of not less than $1,000 in loans to any individual student in any academic year or its equivalent (as determined under regulations of the Commissioner);

(B) authorizes the insurance of loans to any individual student for at least two academic years of study or their equivalent (as determined under regulations of the Commissioner);

(C) provides that (i) the student borrower shall be entitled to accelerate without penalty the whole or any part of an insured loan, (ii) the period of any insured loan may not exceed nine years from the date of execution of the note or other written evidence of the loan, and (iii) the note or other written evidence of any loan may contain such provisions relating to repayment in the event of default by the borrower as may be authorized by regulations of the Commissioner in effect at the time such note or written evidence was executed;

(D) subject to subparagraph (C), provides that, where the total of the insured loans to any student which are held by any one person exceeds $1,000, repayment of such loans shall be in installments over a period of not less than three years nor more than six years beginning not earlier than nine months nor later than one year after the student ceases to pursue a full-time course of study at an eligible institution, except that if the program provides for the insurance of loans for part-time study at eligible institutions the program shall provide that such repayment period shall begin not earlier than nine months nor later than one year after the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload as determined by the institution;

(E) authorizes interest on the unpaid balance of the loan at a yearly rate not in excess of 6 per centum per annum on the unpaid principal balance of the loan (exclusive of any premium for insurance which may be passed on to the borrower);

(F) insures not less than 90 per centum of the unpaid principal of loans insured under the program;

(G) does not provide for collection of an excessive insurance premium;

(H) provides that the benefits of the loan insurance program will not be denied any student because of his family income or lack of need if his adjusted family income at the time the note or written agreement is executed is less than $15,000 (as determined pursuant to the regulations of the Commissioner prescribed under section 9(a)(1));

(I) provides that a student may obtain insurance under the program for a loan for any year of study at an eligible institution; and

(J) in the case of a State program, provides that such State program is administered by a single State agency, or by one or more nonprofit private institutions or organizations under the supervision of a single State agency.

(2) Such an agreement shall—

(A) provide that the holder of any such loan will be required to submit to the Commissioner, at such time or times and in such manner as he may prescribe, statements containing such information as may be required by or pursuant to regulation for the purpose of enabling the Commissioner to determine the amount of the payment which he must make with respect to that loan;

(B) include such other provisions as may be necessary to protect the financial interest of the United States and promote the purposes of this Act and as are agreed to by the Commissioner and the State or private organization or institution; and

(C) provide for making such reports in such form and containing such information as the Commissioner may reasonably require to carry out his function under this Act and for keeping such records and for affording such access thereto as the Commissioner may find necessary to assure the correctness and verification of such reports. Reports and records.

DIRECT LOANS

SEC. 10. (a) The Commissioner may make a direct loan to any student who would be eligible for an insured loan under this Act if (1) in the particular area in which the student resides loans which are insurable under this Act are not available at the rate of interest prescribed by the Secretary pursuant to section 8(a)(2)(D) for such area, or (2) the particular student has been unable to obtain an insured loan at a rate of interest which does not exceed such rate prescribed by the Secretary.

(b) Loans made under this section shall bear interest at the rate prescribed by the Secretary under section 8(a)(2)(D) for the area where the student resides, and shall be made on such other terms and conditions as the Commissioner shall prescribe, which shall conform as nearly as practicable to the terms and conditions of loans insured under this Act.

(c) There is authorized to be appropriated the sum of $1,000,000 for the fiscal year ending June 30, 1966 and for each of the four succeeding fiscal years to carry out this section.

CERTIFICATES OF INSURANCE—EFFECTIVE DATE OF INSURANCE

SEC. 11. (a)(1) If, upon application by an eligible lender, made upon such form, containing such information, and supported by such evidence as the Commissioner may require, and otherwise in conformity with this section, the Commissioner finds that the applicant has made a loan to an eligible student which is insurable under the provi-

sions of this Act, he may issue to the applicant a certificate of insurance covering the loan and setting forth the amount and terms of the insurance.

Certificates of insurance. Effective date.

(2) Insurance evidenced by a certificate of insurance pursuant to subsection (a)(1) shall become effective upon the date of issuance of the certificate, except that the Commissioner is authorized, in accordance with regulations, to issue commitments with respect to proposed loans, or with respect to lines (or proposed lines) of credit, submitted by eligible lenders, and in that event, upon compliance with subsection (a)(1) by the lender, the certificate of insurance may be issued effective as of the date when any loan, or any payment by the lender pursuant to a line of credit, to be covered by such insurance was made. Such insurance shall cease to be effective upon sixty days' default by the lender in the payment of any installment of the premiums payable pursuant to subsection (c).

(3) An application submitted pursuant to subsection (a)(1) shall contain (A) an agreement by the applicant to pay, in accordance with regulations, the premiums fixed by the Commissioner pursuant to subsection (c), and (B) an agreement by the applicant that if the loan is covered by insurance the applicant will submit such supplementary reports and statements during the effective period of the loan agreement, upon such forms, at such times, and containing such information as the Commissioner may prescribe by or pursuant to regulation.

Comprehensive certificate.

(b)(1) In lieu of requiring a separate insurance application and issuing a separate certificate of insurance for each student loan made by an eligible lender as provided in subsection (a), the Commissioner may, in accordance with regulations consistent with section 5, issue to any eligible lender applying therefor a certificate of comprehensive insurance coverage which shall, without further action by the Commissioner, insure all insurable loans made by that lender, on or after the date of the certificate and before a specified cutoff date, within the limits of an aggregate maximum amount stated in the certificate. Such regulations may provide for conditioning such insurance, with respect to any loan, upon compliance by the lender with such requirements (to be stated or incorporated by reference in the certificate) as in the Commissioner's judgment will best achieve the purpose of this subsection while protecting the financial interest of the United States and promoting the objectives of this Act, including (but not limited to) provisions as to the reporting of such loans and information relevant thereto to the Commissioner and as to the payment of initial and other premiums and the effect of default therein, and including provision for confirmation by the Commissioner from time to time (through endorsement of the certificate) of the coverage of specific new loans by such certificate, which confirmation shall be incontestable by the Commissioner in the absence of fraud or misrepresentation of fact or patent error.

(2) If the holder of a certificate of comprehensive insurance issued under this subsection grants to a student a line of credit extending beyond the cutoff date specified in that certificate, loans or payments thereon made by the holder after that date pursuant to the line of credit shall not be deemed to be included in the coverage of that certificate except as may be specifically provided therein; but, subject to the limitations of section 5, the Commissioner may, in accordance with regulations, make commitments to insure such future loans or payments, and such commitments may be honored either as provided in subsection (a) or by inclusion of such insurance in comprehensive coverage under this subsection for the period or periods in which such future loans or payments are made.

(c) The Commissioner shall, pursuant to regulations, charge for insurance on each loan under this Act a premium in an amount not to exceed one-fourth of 1 per centum per year of the unpaid principal amount of such loan (excluding interest added to principal), payable in advance, at such time and in such manner as may be prescribed by the Commissioner. Such regulations may provide that such premium shall not be payable, or if paid shall be refundable, with respect to any period after default in the payment of principal or interest or after the borrower has died or become totally and permanently disabled, if (1) notice of such default or other event has been duly given, and (2) request for payment of the loss insured against has been made or the Commissioner has made such payment on his own motion pursuant to section 12(a). Premium charges.

(d) The rights of an eligible lender arising under insurance evidenced by a certificate of insurance issued to it under this section may be assigned as security by such lender only to another eligible lender, and subject to regulation by the Commissioner.

(e) The consolidation of the obligations of two or more insured loans obtained by a student borrower in any fiscal year into a single obligation evidenced by a single instrument of indebtedness shall not affect the insurance by the United States. If the loans thus consolidated are covered by separate certificates of insurance issued under subsection (a), the Commissioner may upon surrender of the original certificates issue a new certificate of insurance in accordance with that subsection upon the consolidated obligation; if they are covered by a single comprehensive certificate issued under subsection (b), the Commissioner may amend that certificate accordingly. Consolidated loans.

PROCEDURE ON DEFAULT, DEATH, OR DISABILITY OF STUDENT

SEC. 12. (a) Upon default by the student borrower on any loan covered by insurance pursuant to this Act, or upon the death of the student borrower or a finding by the insurance beneficiary that the borrower has become totally and permanently disabled (as determined in accordance with regulations established by the Commissioner) before the loan has been repaid in full, and prior to the commencement of suit or other enforcement proceeding upon security for that loan, the insurance beneficiary shall promptly notify the Commissioner, and the Commissioner shall if requested (at that time or after further collection efforts) by the beneficiary, or may on his own motion, if the insurance is still in effect, pay to the beneficiary the amount of the loss sustained by the insured upon that loan as soon as that amount has been determined. The "amount of the loss" on any loan shall, for the purposes of this subsection and subsection (b), be deemed to be an amount equal to the unpaid balance of the principal amount of the loan.

(b) Upon payment by the Commissioner of the insured portion of the loss pursuant to subsection (a), the United States shall be subrogated to all of the rights of the holder of the obligation upon the insured loan and shall be entitled to an assignment of the note or other evidence of the insured loan by the insurance beneficiary. If the net recovery made by the Commissioner on a loan after deduction of the cost of that recovery (including reasonable administrative costs) exceeds the amount of the loss, the excess shall be paid over to the insured.

(c) Nothing in this section or in this Act shall be construed to preclude any forbearance for the benefit of the student borrower which may be agreed upon by the parties to the insured loan and approved by the Commissioner, or to preclude forbearance by the Commissioner

in the enforcement of the insured obligation after payment on that insurance, or to require collection of the amount of any loan by the insurance beneficiary or by the Commissioner from the estate of a deceased borrower or from a borrower found by the insurance beneficiary to have become permanently and totally disabled.

(d) Nothing in this section or in this Act shall be construed to excuse the holder of a loan from exercising reasonable care and diligence in the making and collection of loans under the provisions of this Act. If the Commissioner, after reasonable notice and opportunity for hearing to an eligible lender, finds that it has substantially failed to exercise such care and diligence or to make the reports and statements required under section 9(a)(3) and section 11(a)(3), or to pay the required insurance premiums, he shall disqualify that lender for further insurance on loans granted pursuant to this Act until he is satisfied that its failure has ceased and finds that there is reasonable assurance that the lender will in the future exercise necessary care and diligence or comply with such requirements, as the case may be.

(e) As used in this section—

"Insurance beneficiary."

(1) the term "insurance beneficiary" means the insured or its authorized assignee in accordance with section 11(d); and

"Default."

(2) the term "default" includes only such defaults as have existed for (A) one hundred and twenty days in the case of a loan which is repayable in monthly installments, or (B) one hundred and eighty days in the case of a loan which is repayable in less frequent installments.

INSURANCE FUND

SEC. 13. (a) There is hereby established a vocational student loan insurance fund (hereinafter in this section called the "fund") which shall be available without fiscal year limitation to the Commissioner for making payments in connection with the default of loans insured under this Act. All amounts received by the Commissioner as premium charges for insurance and as receipts, earnings, or proceeds derived from any claim or other assets acquired by the Commissioner in connection with his operations under this Act, and any other moneys, property, or assets derived by the Commissioner from his operations in connection with this section, shall be deposited in the fund. All payments in connection with the default of loans insured under this Act shall be paid from the fund. Moneys in the fund not needed for current operations under this section may be invested in bonds or other obligations guaranteed as to principal and interest by the United States.

Insufficient moneys.

(b) If at any time the moneys in the fund are insufficient to make payments in connection with the default of any loan insured under this Act, the Commissioner is authorized to issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions as may be prescribed by the Commissioner with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations issued hereunder and for that purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the

Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act, as amended, are extended to include any purchases of such notes and obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. Sums borrowed under this subsection shall be deposited in the fund and redemption of such notes and obligations shall be made by the Commissioner from such fund.

40 Stat. 288.
31 USC 774.

LEGAL POWERS AND RESPONSIBILITIES

SEC. 14. (a) In the performance of, and with respect to, the functions, powers, and duties vested in him by this Act, the Commissioner may—

(1) prescribe such regulations as may be necessary to carry out the purposes of this Act;

(2) sue and be sued in any court of record of a State having general jurisdiction or in any district court of the United States, and such district courts shall have jurisdiction of civil actions arising under this Act with out regard to the amount in controversy, and any action instituted under this subsection by or against the Commissioner shall survive notwithstanding any change in the person occupying the office of Commissioner or any vacancy in that office; but no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the Commissioner or property under his control, and nothing herein shall be construed to except litigation arising out of activities under this Act from the application of sections 507(b) and 2679 of title 28 of the United States Code and of section 367 of the Revised Statutes (5 U.S.C. 316);

62 Stat. 910, 984; 75 Stat. 539.

(3) include in any contract for insurance such terms, conditions, and covenants relating to repayment of principal and payment of interest, relating to his obligations and rights and to those of eligible lenders, and borrowers in case of default, and relating to such other matters as the Commissioner determines to be necessary to assure that the purposes of this Act will be achieved; and any term, condition, and covenant made pursuant to this clause or any other provisions of this Act may be modified by the Commissioner if he determines that modification is necessary to protect the financial interest of the United States;

(4) subject to the specific limitations in this Act, consent to the modification, with respect to rate of interest, time of payment of any installment of principal and interest or any portion thereof, or any other provision of any note or other instrument evidencing a loan which has been insured under this Act;

(5) enforce, pay, or compromise, any claim on, or arising because of, any such insurance; and

(6) enforce, pay, compromise, waive, or release any right, title, claim, lien, or demand, however acquired, including any equity or any right or redemption.

(b) The Commissioner shall, with respect to the financial operations arising by reason of this Act—

(1) prepare annually and submit a budget program as provided for wholly owned Government corporations by the Government Corporation Control Act; and

Budget program, submission.
59 Stat. 597.
31 USC 841 note.

(2) maintain with respect to insurance under this Act an integral set of accounts, which shall be audited annually by the

Audit.

General Accounting Office in accordance with principles and procedures applicable to commercial corporate transactions, as provided by section 105 of the Government Corporation Control Act, except that the transactions of the Commissioner, including the settlement of insurance claims and of claims for payments pursuant to section 9, and transactions related thereto and vouchers approved by the Commissioner in connection with such transactions, shall be final and conclusive upon all accounting and other officers of the Government.

59 Stat. 599.
31 USC 850.

ADVISORY COUNCIL ON INSURED LOANS TO VOCATIONAL STUDENTS

SEC. 15. (a) The Secretary shall establish in the Office of Education an Advisory Council on Insured Loans to Vocational Students, consisting of the Commissioner, who shall be Chairman, and eight members appointed, without regard to the civil service laws, by the Secretary. The membership of the Council shall include persons representing State loan insurance programs, private nonprofit loan insurance programs, financial and credit institutions, and eligible institutions.

(b) The Advisory Council shall advise the Commissioner in the preparation of general regulations and with respect to policy matters arising in the administration of this Act, including policies and procedures governing the making of advances under section 3, the Federal payments to reduce student interest costs under section 9 and the making of loans under section 10.

Members, compensation.

(c) Members of the Advisory Council, while attending meetings or conferences of such Council, or otherwise engaged in the business of such Council, shall be entitled to receive compensation at a rate fixed by the Secretary, but not exceeding $100 per diem, including travel time, and while so serving on the business of the Advisory Council away from their homes or regular places of business, they may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5 of the Administrative Expenses Act of 1946 (5 U.S.C. 73b-2), for persons in the Government service employed intermittently.

60 Stat. 808; 75 Stat. 339, 340.

PARTICIPATION BY FEDERAL CREDIT UNIONS IN FEDERAL, STATE, AND PRIVATE STUDENT LOAN INSURANCE PROGRAMS

SEC. 16. Notwithstanding any other provision of law, Federal credit unions shall, pursuant to regulations of the Director of the Bureau of Federal Credit Unions, have power to make insured loans up to 5 per centum of their assets, to student members in accordance with the provisions of this Act or in accordance with the provisions of any State or nonprofit private student loan insurance program with respect to which there is in effect an agreement with the Commissioner under section 9(b).

DEFINITIONS

SEC. 17. As used in this Act—

(a) The term "eligible institution" means a business or trade school, or technical institution or other technical or vocational school, in any State, which (1) admits as regular students only persons who have completed or left elementary or secondary school and who have the ability to benefit from the training offered by such institution; (2) is legally authorized to provide, and provides within that State, a program of postsecondary vocational or technical education designed to fit individuals for useful employment in recognized occupations; (3) has been in existence for two years or has been specially accredited by

the Commissioner as an institution meeting the other requirements of this subsection; and (4) is accredited (A) by a nationally recognized accrediting agency or association listed by the Commissioner pursuant to this clause, (B) if the Commissioner determines that there is no nationally recognized accrediting agency or association qualified to accredit schools of a particular category, by a State agency listed by the Commissioner pursuant to this clause, and (C) if the Commissioner determines there is no nationally recognized or State agency or association qualified to accredit schools of a particular category, by an advisory committee appointed by him and composed of persons specially qualified to evaluate training provided by schools of that category, which committee shall prescribe the standards of content, scope, and quality which must be met by those schools in order for loans to students attending them to be insurable under this Act and shall also determine whether particular schools meet those standards. For the purpose of this subsection, the Commissioner shall publish a list of nationally recognized accrediting agencies or associations and State agencies which he determines to be reliable authority as to the quality of education or training afforded.

(b) The term "eligible lender" means an eligible institution, an agency or instrumentality of a State, or a financial or credit institution (including an insurance company) which is subject to examination and supervision by an agency of the United States or of any State.

(c) The term "line of credit" means an arrangement or agreement between the lender and the borrower whereby a loan is paid out by the lender to the borrower in annual installments, or whereby the lender agrees to make, in addition to the initial loan, additional loans in subsequent years.

(d) The term "State" includes, in addition to the several States of the Union, the Commonwealth of Puerto Rico, the District of Columbia, Guam, American Samoa, the Virgin Islands, and the Trust Territory of the Pacific Islands.

(e) The term "Secretary" means the Secretary of Health, Education, and Welfare.

(f) The term "Commissioner" means the Commissioner of Education.

Approved October 22, 1965.

LEGISLATIVE HISTORY:

HOUSE REPORT No. 308 (Comm. on Education & Labor).
SENATE REPORT No. 758 (Comm. on Labor & Public Welfare).
CONGRESSIONAL RECORD, Vol. 111 (1965):
June 21: Considered and passed House.
Sept. 28: Considered and passed Senate, amended.
Oct. 8: House concurred in Senate amendment.